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UNCLAS ANKARA 000494

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD/OMA AND EUR/SE
TREASURY FOR OASIA - MILLS AND LEICHTER
STATE PASS USTR - NOVELLI AND BIRDSEY

E.O. 12958: N/A

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SUBJECT: TURKEY'S ECONOMY: GOOD TREASURY BOND AUCTIONS

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1. (U) On January 21, Turkish Treasury auctioned a one-year fixed rate bond and a two-year floating rate bond today to strong demand, in advance of a January 22 debt redemption to the market of TL 5.4 quadrillion (about \$3.5 billion). Treasury sold:

-- a total of TL 3.2 quadrillion of the one-year bond (including about TL 2.7 quad or \$1.65 billion to the market) at a 58.5 percent compounded yield;

-- a total of TL 0.33 quadrillion of the two-year, floating rate bond (including TL 275 trillion or \$165 million to the market).

2. (SBU) Today's auction results, together with TL 1.5 quadrillion (about \$900 million) raised in the auction of a three-month bill auction January 20 and residual cash account, will be sufficient to meet Treasury's \$3.5 billion redemption January 22.

3. (SBU) Comment: After today's auction results, Turkish market participants are breathing a sigh of relief, but not expecting a market rally. Yapi Kredi executive VP Huseyin Imece told us the markets remain concerned about both Iraq and the GOT's relations with the IMF, with the latter being the biggest concern.

4. (SBU) Relations with the IMF remain on hold, pending GOT delivery of the LOI and adoption of the fiscal measures suggested by IMF staff. The GOT received and understood IMF Deputy MD Anne Krueger's tough message on economic reforms, according to Dogan Holding CEO Darbaz, who briefed us following a round of meetings in Ankara January 22 (Darbaz said State Minister Babacan delivered this message to AK Chairman Erdogan). IMF resrep told us he expects to receive the LOI this week.

PEARSON